

This report contains the following items:

- Political
  - Ivan Malakhov elected the new Governor of Sakhalin Region.
- Oil and Gas
  - Sakhalin-II Supervisory Board (SB) and the Authorized Governmental Body (ASB) for Sakhalin-1 are indefinitely postponed.
  - Rosneft rejected the proposal to participate in Sakhalin-6.
  - Exxon is going to cooperate with Rosneft, not with YUKOS.
  - Sakhalin Energy announced a tender for LNG vessel construction.
  - State Experts approved Sakhalin-1.
- Transportation
  - JSC Primorsk shipping company comments on preliminary 2003 results.
- Fishing
  - Fishing companies share in coastal fishing will be determined by the committee.
  - 22 Sakhalin fishing companies remain without fishing quota.
- Population and Demographics
  - Starting 2006 the number of employable (able to work) people in the Sakhalin region population will sharply decrease.
- Construction
  - Sfera Construction Company put into operation new houses at Strawberry Hills village.
- Customs and Foreign Economic Activity

---

## Political

*\* Ivan Malakhov elected the new Governor of Sakhalin.*

Ivan Malakhov, who won in the second round of elections with 53.01% of the votes versus 34.25% received Mr. Sidorenko, was inaugurated on December 30, 2003. Ivan Malakhov received a letter of congratulation from President Putin.

On December 24<sup>th</sup> the former Regional Administration members officially abnegated powers. On January 5<sup>th</sup> Governor Malakhov signed a decree for the formation of a new Administration.



Photo by [www.adm.sakhalin.ru](http://www.adm.sakhalin.ru)

Ivan Malakhov was born in 1953 in the Pologoye Zaimische village of the Astrakhan region. He lives in Yuzhno-Sakhalinsk and does not belong to any political party. Mr. Malakhov graduated from the Higher Naval Academy after which he served in Nevelsk, Sakhalin Region. Mr. Malakhov served in the navy for 10 years, at the Captain II rank of reserve. In 1989 Ivan Malakhov started working in the Nevelsk Administration and in one year became the First Deputy Mayor. In 1991 Mr. Malakhov became the Mayor of Nevelsk and the

district. In 1996 Ivan Malakhov graduated from the Russian Academy of State Service with the degree of Candidate of Sciences. In 1996 Mr. Malakhov became the Vice-Governor of the Sakhalin region, and since 1997 has served as the Chairman of the Economic Committee of the regional Administration.

## **Oil and Gas**

*\* Sakhalin-II Supervisory Board (SB) and the Authorized Governmental Body (ASB) for Sakhalin-1 are indefinitely postponed.*

Meetings were to be held in December to approve budgets and plans for both projects for 2004. The members of both bodies are the representatives of Ministry of Finance, Ministry of Economic Development, Ministry of Taxes and Fees, Ministry of Energy, Ministry of Natural Resources, Sakhalin Region Administration and the representatives of project operators. The working groups coordinated the agenda but the final word is to be said by the new structure - Interagency Government Committee (IGC). The committee was formed a while ago – its members are the representatives of ten to fifteen different committees and bodies. The Committee is the last one to approve the agenda and set the time for the both meetings. But it is still unclear when the IGC itself will meet. According to the representative of the Sakhalin Region Committee for Continental Shelf Resources Development, Mr. Ushakov, the role of the new Committee is unclear, probably being just another bureaucratic body.

The budget for the shelf projects for 2004 is estimated to be almost USD 4.4 billion - about USD 3 billion for Sakhalin-2 and USD 1.4 billion for Sakhalin-1. In 2003 the total investment for the two projects made up about USD 3 billion. (Source - – TIA Ostrova Information Agency, December 30, 2003)

*\* Rosneft rejected proposal to participate in Sakhalin-6.*

Rosneft declined its participation in Sakhalin-6 since the geological survey disclosed low efficiency of possible industrial development. This fact was announced at a press-conference by Sergey Bogdanchikov, the Head of Rosneft. The license for Sakhalin-6 is owned by Petrosakh, which in its turn is controlled by Alfa-Eco. Alfa-Eco was interested in selling its share in the Sakhalin projects (Pogranichny Block); Petrosakh is working on a small project onshore. It was initially planned to merge two licensed areas (onshore and offshore) belonging to Petrosakh and to sell shares in these projects. Rosneft was negotiating with Petrosakh for a year but the geologic survey discovered that the Pogranichny block is not perspective for industrial development. (Source – Prime-TASS ([www.prime-tass.ru](http://www.prime-tass.ru)), December 30, 2003)

*\* Exxon is going to cooperate with Rosneft, not with YUKOS.*

Exxon Neftegas limited (Sakhalin-1) announced the first big contract awards for the oil terminal construction in De-Kastri (Khabarovsk Krai). The company is going to cooperate with Rosneft and not with YUKOS as it was presumed before. The oil export terminal will simultaneously serve as the storage base and the shipping terminal. Shipment to South Korea and Japan will be carried out by Aframax style ice-class vessels. Until the end of 2005, when the first oil is expected, five such vessels will be constructed.

The contract for design, logistics, excavation and oil tank construction was awarded to Enka-Technostrojexport and JSC Trust Koksokhimmontazh. The first contractor will carry out site preparation for the De-Kastri terminal construction, including design. Koksokhimmontazh will construct two 100,000 cubic meter reservoirs (650,000 barrels) for crude oil storage. (Source – TIA Ostrova Agency, December 25, 2003; Deita.ru –December 23, 2003).

*\* Sakhalin Energy announced a tender for LNG vessel construction.*

On December 12 SEIC announced a tender for construction and supply of a vessel for LNG transportation. The vessel will be constructed by the end of the third quarter of 2007. The tender envisages an order for another vessel in perspective. As soon as more contracts for LNG supply are signed, more vessels may be needed for this project. The tender will end on February 06, 2004. (December 16, 2003)

*\* State Experts approve Sakhalin-1.*

On December 24<sup>th</sup> The State Environmental Expertise Committee at the Russian Ministry for Natural Resources held its final meeting on the first stage of Sakhalin-1. The Committee approved the documentation despite the criticism from the side of Sakhalin Regional Administration and public environmental organizations. As it was reported to the press by the Ecological Watch of Sakhalin (public organization), the Vice-Governor Mr. Shapoval stated that the opinion of the Regional Administration was not to approve the positive resolution. The major arguments against the approval are absence of automatic emergency valves at the linepipe, high risk of winter oil transportation in Tatar Strait and insufficient clarity on an issue of compensations in case of tanker oil spills, as well as the unavailability of a landfill. The public companies also point to other aspects – underground pipeline in the seismic zone of Northern Sakhalin. The project, according to Sakhalin environmentalists, is threatening the habitat of numerous bird species that are present in the Red Book. Such species as *Tringa guttifer*, *Haliaeetus albicilla* (erne) and Steller's sea eagle are listed in the Red List of the International Union for the Protection of Nature.

The underground pipeline construction through the Piltun Bay may significantly harm the already endangered population of gray whales, environmentalists state. The bay plays a considerable role as the forage reserve for the Okhotsk-Korean (western) population of these animals. It is stated that the replacement of vast portions of soil may lead to a severe decrease of this ecosystem's productivity. The pipeline may also harm the fish resources of Piltun Bay.

Exxon Neftegas is also accused of infringing upon the interests of indigenous people, because the onshore pipeline is to be laid via the reindeer pastures without any compensation envisaged for the deer-raisers.

All the disputable questions are said to be ignored by the State Environmental Expertise even despite the fact that in 2002 the preliminary stage of Sakhalin -1 was negatively appraised by the public environmental expertise (whose members were Doctors and Candidates of Science). In reply to that, Exxon Neftegas made positive changes to the project. It abandoned the idea of pier construction on Piltun Bay spits, which could lead to the total vanishing of the gray whale population – the cargo is delivered by barges, which moor outside the pastures.

The environmentalists also state that Exxon's position is more constructive than of Sakhalin Energy (Sakhalin-2). It is being said that SEIC is not changing the ecological conditions of

their projects at all. SEIC is planning to construct 4 underwater pipelines through the southern part of the gray whale pasture, bury about 1 million metric tons of soil in the fish-rich Aniva bay and lay pipeline via 44 joint fissures ignoring the best international practice for such areas – laying overhead pipeline. (Source –Sakh.com agency, December 29, 2003)

## Transportation

*\* JSC Primorsk shipping company comments on preliminary 2003 results.*

Per the company's press- service, the year became successful - cargo turnover could exceed the outstanding result of 2001 when the company shipped 10.4 million metric tons of cargo. For the 11 months of 2003 the tankers of PRISCO shipped 9 million 823 thousand metric tons of cargo – which is comparable to the result of the whole 2002. PRISCO Corporation's income level is expected to be as high as USD 138 million (more that 14 million more than in 2003). Transportation of Sakhalin oil is increasing. Tankers shipped more than 1 million 350 thousand metric tons of oil. During summer navigation, the oil from the Vityaz complex (Sakhalin Energy Investment Company) was shipped by the largest vessel of PRISCO – the *Primorye* tanker. The De-Kastri terminal (Khabarovsk Krai) oil (extracted by Rosneft-Sakhalinmorneftegas) is shipped by the *Asia* tanker (40 thousand metric tons of deadweight). In winter, De-Kastri oil is shipped by reinforced ice ships which are capable of working without ice management .



<http://www.morflot.org>

In 2003 PRISCO was awarded a tender for Sakhalin-1 oil transportation. This award enabled PRISCO to sign a contract for three ice-reinforced Aframax-type tankers construction. The tankers will be constructed at Hyundai Heavy Industries docks. The construction of vessels with the deadweight of more than 100 thousand metric tons will start in March 2005 and is supposed to finish in 2005-2006.

In order to work on the Baltic routes PRISCO is to construct from two to four large-capacity vessels to ship cargo from Primorsk to Europe. The ice-reinforced tankers will have 150-170 thousand metric tons of deadweight – the contract for construction is supposed to be signed by mid-2004. At the moment the *Primorye* tanker is sailing to the Baltic (105 th. m.t. of deadweight), which finished its shipping season at the Sakhalin shelf.

In 2004 the number of vessels at PRISCO will remain the same (45-47), although the fleet quality is going to change significantly.

The twin-hulled tanker Ostrov Sakhalin (Sakhalin Island) was launched in Croatia for PRISCO on December 24, 2003 (deadweight 108 thousand metric tons). In May of 2004 tanker Gubernator Farkhutdinov (Governor Farkhutdinov) will be launched. Both tankers were constructed for Sakhalin shelf oil transportation. (Source – TIA Ostrova Information Agency, December 30, 2003)

## Fishing

*\* Fishing companies share in coastal fishing will be determined by committee.*

By the Decree of the Regional Administration a special inter-departmental committee was created which will be in charge of industrial fishing shares for coastal fishing between the applicants. A working group will also be created which is to review documents and prepare materials for the committee meetings. The head of the committee is the Acting Chairman of the Regional Economics Committee Vladimir Godunov. The members of the committee are the representatives of Sakhalinrybvod, SakhNIRO, local subdivisions of federal executive bodies, regional authorities and fishery-related public organizations. *(Source – The Press Center of the Sakhalin Region Administration, December 12, 2003)*

*\* 22 Sakhalin fishing companies remain without fishing quota.*

The Head of the Sakhalin Fishing Department Igor Bystrov came from Moscow – he was delivering the Sakhalin application for quotas. The fishing documents will be not available for everyone, some entrepreneurs were refused. A difficult situation formed in the State Fishing Committee from management change, but it was promised that fishermen would get their quotas on January, 04. Coastal fishing documents will be reviewed later – this influenced the fact that in the Sakhalin region the navaga fishing season again started by the order of the local administration instead of federal approval. Twenty-two Sakhalin companies will possibly get no quota at all. Four of them did not submit applications in time, others had not paid fees for fishing rights breakage and tax debt. The Sakhalin Fishing Department thinks such measures are legitimate. *(Source - Sakhalin Broadcasting Company, January 05, 2004)*

## **Population and Demographics**

*\* Starting 2006 the number of employable (able to work) people in the Sakhalin region population will sharply decrease*

It is being forecasted that during the next 2 years the “raw materials” orientation of the Sakhalin economy will still exist. At the moment it is known that about 140 investment projects will be financed from federal, regional budgets and from company funds. These projects, if implemented successfully, are to provide more than 14.4 thousand jobs (according to the Federal Employment Service Department for Sakhalin Region).

The majority of the projects are connected not only with the oil and gas industry but also with the construction, technical upgrade of energy complex, transportation and communications, fishing industry, food processing, road construction and others. Small business should also develop alongside with the oil and gas sphere.

In general, for the period of 2004-2006 the need for specialists will be about 31 thousand people. The major demand is for the specialists with higher technical education, highly qualified workmen (mechanics, electricians, welders, oil and gas extraction operators and others). During this period it is planned to workers from other regions of Russia and CIS will be employed, as well as about 5-7 thousand foreign employees. According to the employment Department, in 2004-2005 about 300 thousand people will be employed annually (on a controlled segment of the labor market). In 2006, alongside with completion of major construction for Sakhalin-1 and 2, the employment number will drop to 283.6 thousand people. The Department also stated that in 2004-2006 the tendency for a population decrease will remain. In 2006, people born in the 90's – the period of low birth rate - will be officially

counted as “capable to work”. The number of people in the economically active population will thus drop by about 10,000 by 2006. It is also forecasted that the natural population loss and migration will contribute another 5,000 people.

The Regional Duma approved the Program for Employment Support in the Sakhalin Region for 2004-2006 on December 25<sup>th</sup> (drafted by the Employment Department by order of the Regional Administration). The program is supposed to slow the unemployment growth and help to employ not less than 72 thousand people during the next two years (23.5 thousand in 2004), to facilitate temporary employment (at least 420 people annually) and to perform other employment-related social functions. The program envisages creation of a computer database on available vacancies and places for re-training and raising skill level. About USD 20 million are allocated for this program in the federal budget and about USD 200,000 from the regional budget (in 2004 – USD 6.8 million and 67 thousand correspondingly). (Source – TIA Ostrova Agency, December 26, 2003)

*\* Sfera Construction Company put into operation new housing at Strawberry Hills village.*

Sfera put into operation five two-story buildings (20 apartments) in Strawberry Hills. The dwelling complex is being constructed to the south of Zima Village (Sakhalin Energy) on 106,443 square yard area. In the summer of 2003 Sfera started its own workshop with American equipment for module housing construction. Construction of four buildings took 4 months. All the houses (average area of one apartment is 130-160 square meters – 155-190 square yards) will be leased to ExxonNeftegas, LTD. It is planned to construct 5 more houses by April 01, 2004. According to the representative of Sphera, the village is not constructed solely for oil company employees and the apartments can be purchased by anyone who is interested. The price of 1 square meter is USD 983. The village will have an autonomous boiler-house, backup power generators, water wells, and sewer system. The second phase of the project envisages construction of another 24 houses with garages. Parallel to this project Sphera is constructing a 3-store hotel *Strawberry Hills* - to be put into operation on April 01, 2004 - internal finishing is carried out at the moment. The hotel will have about 80 rooms (71- one bedroom and 10 suites). The hotel will also include two saunas, bar, restaurant and a swimming pool. (Source – TIA Ostrova Information Agency, December 23, 2003)

### **Customs and Foreign Economic Activity**

During first 11 months of 2003 Sakhalin customs registered 3,476 customs declarations for Sakhalin-1 and Sakhalin-2. This makes up 40% of total number of customs declarations for this period and exceeds 11 months of 2002 by 95% (1,176 declarations for 11 months of 2002). The total weight of cargo made up 1 million 249 thousand metric tons (64% of the total region turnover). In money terms the turnover made up USD 510 million (78% of the total). (Source – TIA Ostrova Agency, December 15, 2003)

Foreign Economic turnover of the Sakhalin Region made up USD 659.4 million during 11 months of 2003. The increase in comparison with 11 months of 2002 is just 1%. Foreign economic turnover made up USD 651,75 million for the whole 2002. Trade was carried out with 63 countries (7 from CIS) – 13 countries more than in 2002. The major part of turnover was taken by Japan – USD 246.3 million; USA- USD 87.5 million; South Korea – USD 79.7 million; China – 61.8 million. The Sakhalin region exported 1 million 711 thousand metric tons of goods for the amount of USD 334,419 (export decreased by 28% in comparison with

previous years, in money terms – by 21%). Export figures decrease mostly at the expense of oil and timber export decreasing.

During 11 months of 2003 the region exported 1.2 million metric tons of oil (1.6 million metric tons in 2002), 28.2 thousand metric tons of seafood (26.3 thousand metric tons in 2002), 284.2 thousand metric tons of lumber (405.4 in 2002), 126.3 thousand metric tons of coal and peat (182.8 in 2002). Major recipients of this cargo were – Japan (901 thousand metric tons – USD 174 million); China (317 thousand metric tons – USD 60 million), South Korea (297 thousand metric tons – USD 45 million). 157 Sakhalin companies are exporters (14 of these are private entrepreneurs).

During 11 months of 2003 Sakhalin region imported 212 thousand metric tons of cargo (155% compared to the same period of 2002), for the total amount of USD 325 million (145%). Major importers were USA – 10 thousand metric tons of cargo for USD 62 million), Japan (78 thousand metric tons for USD 71 million), South Korea (25 thousand metric tons – USD 34 million) and Singapore (4 thousand metric tons for USD 21 million). 1,626 companies were importing goods (1,359 of these were private entrepreneurs). Largest importers are Sakhalin Energy Investment Co., Exxon Neftegas LTD., NK Rosneft-Sakhalinmorneftegas. (*Source- TIA Ostrova Agency, December 15. 2003*)

INTERNATIONAL COPYRIGHT, U.S. & FOREIGN COMMERCIAL SERVICE AND  
U.S. DEPARTMENT OF COMMERCE, 2004. ALL RIGHTS RESERVED FOR USE  
OUTSIDE OF THE UNITED STATES.